COMMONWEALTH OF MASSACHUSETTS

DEPARTMENT OF TELECOMMUNICATIONS AND ENERGY

Investigation of the Department of Telecommunications and Energy into whether (1) metering, meter maintenance and testing, customer billing, and information services should be unbundled; and (2) the service territories of distribution companies should remain exclusive, as required by G.L. c. 164, § 1B	D.T.E. 00-41

REPLY COMMENTS OF

SITHE NEW ENGLAND HOLDINGS LLC

I. Introduction

Sithe New England Holdings LLC ("Sithe") appreciates the opportunity to provide reply comments regarding whether metering, billing and information services (MBIS) should be unbundled from other electricity services provided by distribution companies in Massachusetts.

In its initial comments filed on August 1, 2000, Sithe focused exclusively on the question of whether electricity metering should be made competitive. In particular, Sithe's initial comments addressed the issue of whether competitive metering would make retail and wholesale electricity markets more efficient by facilitating the development of price-responsive demand.

Sithe's initial comments made the point that, in order to operate effectively, electricity markets must rely on price-responsive demand to reduce load during price spikes. Further, the development of price-responsive demand depends on enhanced metering capabilities being made available for at least some customers. Thus, if the introduction of competition in the provision of metering service is likely to lead to an efficient and rapid implementation of advanced metering, then metering should be made competitive. Sithe's view in this regard was endorsed by other commenters who recognized that competitive metering could enhance the efficiency of energy

markets by making "energy consumption more responsive to real-time price signals."(1)

At the same time, Sithe noted the lack of real-world experience with competitive metering, and suggested pilot programs as a useful means of determining whether, in fact, the unbundling of metering would result in real benefits to ratepayers. While no other commenter explicitly suggested pilot programs, two commenters suggested "go slow" approaches that Sithe views as consistent with the creation of pilot programs. Specifically, one of the Pacific Economics Group studies attached to NSTAR's comments argues that policymakers should proceed "step-wise" when benefits are uncertain.(2) Similarly, the Competitive Retail Providers suggest beginning competitive metering with large customers.(3)

In these Reply Comments, Sithe addresses the arguments against competitive metering (or, more generally, competitive MBIS) that were presented in the initial comments of other parties. (Sithe notes that, in many cases, opponents of competitive metering have made the arguments that Sithe's initial comments anticipated and briefly rebutted.)

II. Reply to Opponents of Competitive Metering(4)

The opponents of competitive electricity metering generally advanced six arguments in their initial comments. Each of these arguments is addressed below.

Contrary to the views of various commenters, competitive metering need not impede competitive retail energy markets

Several commenters argued that competitive metering would create an obstacle to retail electricity suppliers.(5) However, this argument is based on a straw man model that assumes there would be no provider of default metering service in a market where meters are provided competitively. As such, this straw man model differs significantly from the competitive metering frameworks that have been introduced in other jurisdictions. For example, MECo presumes that in a system where metering is provided competitively, there would be no "default" provision of metering.(6) As a result, competitive energy suppliers would be forced to provide metering services, whether they wished to or not. In MECo's view, the need to arrange metering for retail customers would thus constitute a "barrier to entry" to the retail market for these suppliers. Sithe finds this "barrier to entry" argument unpersuasive because of its faulty premise that there would be no default provider of meter services.

Sithe does not believe that the introduction of competitive metering will create barriers to entry in the retail electricity markets--after all, competitive provision of telephone handsets has not impeded competitive telecommunication markets. Sithe agrees with the Customer Group that some form of default meter service should be provided.(7) In other jurisdictions, the distribution company is the default meter service provider. In New York, "[T]he utility shall be the POLR [provider of last resort] for metering and meter data services. The utility shall retain the metering function for customers who participate in retail access for electric supply but whose ESCO [energy service company] does not offer metering services."(8) And, in Pennsylvania, the distribution company is also the provider of default metering service.(9)

In sum, provision of default meter service by distribution companies would ensure

that suppliers would not be forced to enter the meter market if they did not wish to do.

Contrary to WMECo's view, competitive meter providers would not have monopoly power

Opponents of competitive provision of metering also make a related argument: when a customer switches from one supplier to another, the original supplier can "hold up" the new supplier by refusing to transfer control of the customer's meter at a reasonable price.(10) Under this theory, the competitive meter supplier would have monopoly power over the customer.

In Sithe's view, meter provision is unlikely to be subject to such market power problems. First, in many cases the competitive meter provider may be separate from the retail electricity provider. In such situations, a customer who changes electricity providers can continue to receive metering service from the same competitive meter provider.

Second, in cases where the retail electricity provider also provides metering service, this potential abuse of market power could be prevented in a straightforward and efficient manner. For example, licenses issued to competitive meter providers could include a provision that the customer has an option to purchase the meter at a price specified in the original service contract. Alternatively, regulations could require that a supplanted retailer must either remove the meter or sell it to the new supplier (or customer) within some number of days.(11) Just as we have regulations in place today requiring distribution companies to complete certain actions within specified time frames, competitive meter suppliers similarly could be required to transfer (or remove) meters within a time frame required by regulation.

Contrary to some commenters' positions, competitive metering need not harm distribution service quality or safety

The opponents of competitive metering argue that the metering interface lies at the heart of the historic relationship between electric companies and their customers and without this connection, customer service, safety and system reliability will be compromised. (12)

The common--and incorrect--presumption here appears to be that the competitive meter provider will withhold vital information from the distribution company. The competitive meter provider should be required (in its license and/or by regulation) to afford the distribution company access to any customer data the distribution company legitimately needs to ensure safe and reliable system operation.(13)

Notably, Pennsylvania requires such information sharing: "All data collected by an EGS providing advanced metering service, which is required by PECO Energy for billing and distribution service operation, shall be transmitted electronically to PECO Energy pursuant to the Data Transfer Schedule." PECO Energy Company Electric Generation Supplier Coordination Tariff, July 29, 2000, at 67-68.

Contrary to the views of some commenters, lack of experience with competitive metering in other states does not prove that there are no benefits of competitive metering

The distribution companies argue that there is no evidence that competitive metering would be beneficial to customers. Sithe agrees with this view. However, Sithe does not accept the opposite position either - - i.e., that the lack of evidence is in itself proof that competitive metering would not be beneficial. To the contrary, as Sithe explained in its initial comments, there is good reason to believe that competitive metering would provide substantial benefits to customers. In particular, competitive provision of metering might lead to a more rapid and efficient implementation of the enhanced metering technologies that are essential to the development of price-responsive demand, with its important role in improving the efficiency of retail and wholesale generation markets.

The lack of evidence of such benefits is the inevitable result of both the lack of experience with competitive metering and the transitional state of the electricity markets. Competitive metering has been introduced quite recently and only in a handful of states. While Sithe agrees that there is too little experience with competitive metering to conclude that large scale unbundling of metering services would be beneficial to customers, Sithe also views the potential benefits of competitive metering - - i.e., improvement in the efficiency and operation of retail and wholesale generation markets -- as significant enough to justify the establishment of pilot programs in Massachusetts.

Contrary to some commenters' views, metering is not a natural monopoly

The distribution companies and the union argue that metering is a natural monopoly and as such it is most efficiently provided under a traditional regulatory framework. Sithe does not agree that metering is a natural monopoly.

Sithe acknowledges that there may be some scale economies in manual meter reading, particularly in densely populated residential areas. The main source of these scale economies appears to be the cost of transporting the meter reading crew to the customers' facilities. When the crew reads the meters of multiple customers at one location, the transportation cost can be leveraged across more customers. However, this transportation cost is likely to be small (i.e., MECo estimates transportation costs of $5.10 and $6.80 for meter installation crews(14)) and, as such, such scale economies might readily be offset by other costs lowered by competition.

In any case, scale economies of sufficient magnitude to constitute a "natural monopoly" are not present in any other dimension of the metering function. Further, as MECo points out, competitive providers of metering will be able to develop and exploit their own scale economies, as these companies will in many cases be much larger than today's distribution companies.(15)

NSTAR bases its claim that metering is a natural monopoly on a second study by the Pacific Economics Group.(16) The 2000 Pacific Study uses FERC Form 1 data to analyze scale and scope economies in the electricity distribution sector. However, this study provides little useful information about the cost structure of metering services.

The main flaw of the 2000 Pacific Study is that it uses historical data at a time when the cost structure of metering is rapidly changing because of new technologies. Drawing conclusions from data based on historic and perhaps obsolete technologies is inappropriate during times of technological innovation.

A second main problem with the 2000 Pacific Study is its use of Form 1 data. As is evident from the cost data presented in the filings of the distribution companies in this docket, companies use different reporting practices so that reliance on Form 1 data

necessarily involves an "apples and oranges" comparison. The authors of the 2000 Pacific Study tacitly acknowledge these data problems when they say they included data for only ninety-eight of the 187 companies that filed Form 1 data in 1997, rejecting companies that have "implausible" data.(17) They fail to define plausibility, however, and nothing in their report reassures us that they have not merely eliminated data series that were inconsistent with their otherwise unsupported conclusions.

Contrary to the views of some commenters, it is unlikely that, under the regulated model, distribution companies can and will provide metering services that are fully responsive to the demands of generation suppliers and customers.

Several of the distribution companies' comments recognize that enhanced metering and other new MBIS services are necessary to support innovative competitive retail services.(18) The electric companies assert that they are now offering, or will develop and offer, these enhanced services under the regulated model.(19) The union also believes that the benefits of advanced metering technologies can be offered to large electricity customers without opening up metering to competition.(20)

At the same time, the Competitive Retail Providers claim that "to date, the current regulatory system has failed to deliver advanced metering."(21) Evidence from the Pennsylvania experience (described in Sithe's Initial Comments at 19-20) seems to suggest that distribution companies are more likely to develop market-responsive metering services when spurred to do so by the threat of competition.

III. Conclusion

Sithe finds there is good reason to believe that competitive metering would lead to a more rapid and efficient implementation of enhanced metering services. These enhanced services are necessary for development of the kind of price-responsive demand for electricity in both retail and wholesale generation markets that various stakeholders, including regulators, want to see in the region. While there is insufficient evidence to conclude that competitive metering would benefit all customers at this time, there is certainly no evidence that the benefits of price-responsive demand will accrue to Massachusetts customers under the current system. Accordingly, Sithe respectfully requests that the Department ask the Legislature to require electric distribution companies to develop pilot programs targeted at large customers.

Respectfully submitted:

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John O'Brien

Vice President

Dated: September 8, 2000

1. 1 Laurence Kaufmann, "Third Party Metering, Billing and Information Services: The Experience in California so Far," April 21, 1999, at 19-20 ("1999 Pacific Study") (NSTAR Initial Comments, App. D). See also Competitive Retail Providers Initial Comments at 9.

2. 2 1999 Pacific Study at 6.

3. 3 Competitive Retail Providers Initial Comments at 12.

4. 4 As in its initial comments, Sithe focuses here on issues associated with the possible introduction of competition in electricity metering. Sithe's proposal with respect to pilot programs is not meant to apply to gas distribution companies or to encompass non-metering elements of MBIS.

5. 5 NSTAR Initial Comments at 24; WMECo Initial Comments at 9.

6. 6 MECo Initial Comments at 6-7.

7. 7 Customer Group Initial Comments at 11-12.

8. 8 New York Practices and Procedures for the Provision of Electric Metering in a Competitive Environment ("Proposed New York Competitive Metering Rules"), New York Department of Public Service, February 23, 2000 at 12. The Proposed New York Competitive Metering Rules were drafted by the Staff of the Department of Public Service (DPS), based on the reports and recommendations of collaborative working groups. The DPS expects that the Proposed New York Competitive Metering Rules will be adopted by each utility concurrently with the utility's unbundled metering tariff. (http://www.dps.state.ny.us/esco_metering.html.)

9. 9 See PECo Energy Company Electric Service Tariff, May 8, 2000, at 20.

10. 10 WMECo Initial Comments at 8.

11. 11 In New York, retailers have 10 days within which to sell or remove the meter after a customer changes suppliers. Proposed New York Competitive Metering Rules at 67.

12. 12 WMECo Initial Comments at 8; Utility Workers Initial Comments at 11-12; NSTAR Initial Comments at 20.

13. 13 The Customer Group points out that advanced metering technology installed by competitive providers would provide distribution companies with important information that could improve distribution system reliability. Customer Group Initial Comments at 10.

14. 14 Offer of Settlement regarding the provision of Optional Enhanced Metering, Interval Data, and Billing and Rate Data Services by Massachusetts Electric Company and Nantucket Electric Company, July 5, 2000.

15. 15 MECo Initial Comments at 14.

16. 16 "Economies of Scale and Scope in Power Distribution: Implications for Competition Policy," by Mark Newton Lowry, Larry Kaufmann, Don Wyhowski, and David Hovde, August 1, 2000 ("2000 Pacific Study") (NSTAR Initial Comments, App. A).

17. 17 2000 Pacific Study at 26-27.

18. 18 MECo Initial Comments at 23.

19. 19 NSTAR Initial Comments at 23-24; MECo Initial Comments at 22-23; Fitchburg Gas and Electric Initial Comments at 3; WMECo Initial Comments at 1.

20. 20 Utility Workers Initial Comments at 15.

21. 21 Competitive Retail Providers Initial Comments at 11.